CONTROLLED FOODS INTERNATIONAL LTD.

Jul

ANNUAL REPORT 1970

CONTROLLED FOODS INTERNATIONAL LTD.

CONTENTS

CONTROLLED FOODS INTERNATIONAL LTD.

Statement of Income

For the six months period ended June 30, 1970

(Unaudited)

Gross operating revenue	$ 6,711,775
Operating expenses other than those noted below	6,204,605
Interest	96,885
Depreciation and amortization	166,647
	$ 6,468,137
Income before gain on fixed assets and income taxes	$ 243,638
Gain on disposal of fixed assets	48,997
Net income before income taxes	$ 292,635
Estimated income taxes	121,819
Net income for the period	$ 170,816
Average number of shares outstanding	2,625,000
Earnings per share	6.5¢

Controlled Foods International Ltd.
3155 UNDERHILL AVENUE, BURNABY 2, B.C., CANADA
TELEPHONE 291-2991 • AREA CODE 604

REFER TO OUR FILE No.

August 25, 1970

TO OUR SHAREHOLDERS

For those of you who were unable to attend our annual meeting we enclose a copy of the Chairman's report to the shareholders. We also enclose the unaudited statement of income of the Company for the six month period ended June 30, 1970. As indicated in our first quarter report comparative financial data is not available for this quarter. Future quarterly reports will provide comparative financial data.

ON BEHALF OF THE BOARD

Le Roy E. Fuller

President

Controlled Foods International Ltd.

REFER TO OUR FILE NO.

August 29, 1979

TO THE SHAREHOLDERS

For those of you who were unable to attend our annual meeting we enclose a copy of the Chairman's report to the shareholders. We also enclose the unaudited statement of income of the Company for the six month period ended June 30, 1979. As indicated in our first quarter report comparative financial data is not available for this quarter. Future quarterly reports will provide comparative financial data.

ON BEHALF OF THE BOARD

President

CONTROLLED FOODS INTERNATIONAL LTD.

ANNUAL GENERAL MEETING - MONDAY, JULY 27, 1970

CHAIRMAN'S REPORT TO THE SHAREHOLDERS

It is with a great deal of pleasure that I act as Chairman of this, the first Annual Meeting of the Company.

Although this is the Annual Meeting covering the period of 1969, it is not my intention to devote a great deal of time to this area. I feel that most of the history of 1969 is covered in the Annual Report, of which I hope you all have a copy. The only real comment I will make on 1969 is that the profits are below those of 1968 and management expects to improve on the 1969 profits by a noticeable margin in 1970. (If there are any questions relating to the 1969 operation we will do our best to answer them for you during the question and answer period which has been set aside later in the Meeting.)

My main concern, as newly appointed President of the Company, is for the balance of 1970 and the years that lay ahead. I believe that if we, as a Company, can demonstrate our ability to consistently grow and progress from our existing well established strong base, we will see these efforts rewarded by wider public acceptance and greater recognition of your Company in the market place. You can rest assured that I shall do all in my power to see that your Company meets these growth objectives and achieves these results.

The latter part of 1969 and the first part of 1970 has been one of the greatest economic slumps of recent years. This cutback in the economy occurred just after your Company went public. This tight money situation has had the effect of slowing down the Company's expansion plans. We are only now starting to see some relief from this economic slump and have recently been able to arrange mortgage money on a few of our properties. It is the intention of management to continue mortgaging properties and selling off surplus assets until the working capital position, noted at year end, is corrected.

The year 1969, although not without its pitfalls as mentioned earlier, was not without its achievements. First and foremost, the consolidation of all your company operations into one cohesive unit, following the public underwriting, gave us a strong base from which to expand. This, of course, is the Company in which all of you have purchased shares.

Secondly, it had been pre-determined by the principals of the Company to enter the fish and chip area of the fast food business. Plans and programs were finalized and to date this program has seen the opening of eight company-owned units and eighteen franchised units.

The Board of Directors also thought that other areas of the fast food business should be explored. After additional research, it was decided that a new coffee shop program offered a good growth potential for the Company. Plans and specifications were finalized for this new concept and recent negotiations have resulted in the ground-breaking ceremonies for our first unit in Edmonton.

We have also spent considerable time researching the possibility of providing food service operations in regional shopping centres across Canada.

It is the intention of management, therefore, to pursue the following areas of growth:

1. The development of additional A & W drive-in units.

2. The Chappy's Fish and Chip Program.

3. The Fuller's Coffee Shop Program.

4. In-line food service operations.

There have been several management changes within the Company. I was appointed President on May 21, 1970. This change was necessitated by Mr. Bolte's decision to renew his academic career in the United States. Mr. Dal Bianco's decision to return to his job with Clarkson, Gordon & Co. and resign as Treasurer of the Company prompted the promotion of Mr. Robert Roe to act in this capacity. Although Mr. Roe's tenure in this capacity has been only a few short months, I feel quite confident that the job of Treasurer of the Company is in good hands. On June 1, 1970 Mr. Roger Deware was employed by your Company to act as Vice-President. Mr. Deware has had many years of food service background, ranging from industrial catering to numerous areas of the fast food business. It will be Mr. Deware's job to direct the many areas of growth of the Company and I feel that his previous background more than qualifies him for the position he now holds.

We, to date, have organized the various divisions into one strong Company utilizing centralized control. Although the full effects of this reorganization will not be felt until 1971, some benefits are becoming apparent. First-quarter reports showed the Company losing some $55,000.00 (as pointed out, management had anticipated a loss for this period). While the final figures are not available for the second quarter it is indicated that our profit will approximate $225,000.00 for this quarter. After deducting the first quarter loss, it is anticipated that we will have $170,000.00 profit for the six months ending June 30. Barring a major downturn in the economy, it is anticipated that the second half of the year will produce a significant improvement over the first-half results.

We plan to expand on a limited basis during the next year or until such time as we see an upswing in the economy. A good portion of our time will be devoted to attaining maximum results from the units we are now operating as well as to building a strong management team.

When Controlled Foods International Ltd. was brought into existence it was the belief of the principals that by uniting our forces we possessed a strong base from which to expand - something that none of us as individuals possessed. We still hold that belief and intend to make this Company well known in the fast food industry.

I see the balance of 1970 as a time to strengthen our financial position, obtain maximum results from the units we are operating, and expand with a certain amount of caution.

I would not like to close without wishing Mr. Bolte, our first President, well in the career he has chosen nor would I wish to close without paying honour to the memory of David Wynn Thomas, our first Chairman of the Board.

HIGHLIGHTS

	1970 (000's eliminated)	1969 (000's eliminated)
Revenues	$13,562	$13,206
Net income for year before extraordinary items	390	309
Net income (loss) for year	(719)	309
Cash flow	651	668
Total assets	6,282	7,627
Shareholders' equity	3,353	4,072
Per common share	**1970**	**1969**
Net income for year before extraordinary items	$ .15	$ .13
Net income (loss) for year	(.27)	.13
Cash flow	.24	.27
Shareholders' equity	1.28	1.55
Number of Restaurants at end of year—	**1970**	**1969**
Company operated		
A & W	51	51
Fuller's	1	—
Chappy's	2	6
Other	8	12
	62	69

TO OUR SHAREHOLDERS

I am pleased to report on behalf of the Board of Directors the activities of your Company for 1970. This past year has been a busy one and some major decisions have been made.

Firstly, we decided to close all existing company-owned fish and chip stores. This move was necessitated by the fact that all units were operating at a loss. Before taking such drastic action we employed a highly reputable advertising agency and worked with them and spent a considerable amount of money exploring the market potential of this program.

Secondly, we decided to close other units which were expected to be a continual drain on management's time and Company's earnings.

Thirdly, we decided to place units in the United States which were remote from the Company's main operations on a management contract.

Fourthly, we decided to consolidate all accounting at our head office in Vancouver.

These decisions caused the Company to show an extraordinary loss of $1,108,707 this past year or 42c per share.

These were all sound decisions based on our best judgment keeping foremost in our mind the future well-being of this Company.

In the financial review section of this report you will note that the operating profit for 1970 exceeds that of 1969 and improvement is anticipated for 1971.

We are most enthusiastic about the Company's future. The outlook for 1971 is for a significant increase in fully taxed earnings, for the following reasons:

1. Unit sales in the A & W Drive-In division are trending higher, and have not suffered to the same extent as others from competition. In 1970, unit sales increased by about 5% and are projected to increase by 5% in 1971. Consequently, we expect that sales and earnings in the A & W division will reach record levels in 1971.

2. Head office overhead expenses have been substantially reduced following a consolidation of the head office activities in Vancouver.

3. The Company has placed its South Carolina drive-ins under a management contract to a local operator on a royalty basis related to sales. This should result in improved profits in the Burger Family, Inc. division in the U.S.

4. Management is very encouraged by the sales volume and profitability of its "Fuller's" coffee shop restaurant, which was opened in Edmonton last December. Four additional "Fuller's" are planned for 1971, and 10 units are in the planning stage for 1972.

5. The Company has funds, through cash flow and credit facilities, to support an accelerating expansion programme in the coffee shop field. A moderate schedule of expansion will also be maintained in the A & W Drive-In division, either through acquisition or by opening new units.

On Behalf Of The Board

LeRoy E. Fuller

LeRoy E. Fuller
President

FINANCIAL REVIEW

REVENUES:

Sales of food and supplies were $13,013,147 in 1970, an increase of 1.7% compared with sales of $12,798,276 in 1969. The sales are classified as follows:

Division	SALES (In Thousands) 1970	%	1969	%
Canadian Drive-In Division	$10,116	77.7	$ 9,605	75.1
Coffee Shop Division	1,001	7.7	1,034	8.1
Burger Family Inc.	1,332	10.2	1,950	15.2
Chappy's Fish and Chips	564	4.4	209	1.6
	$13,013		$12,798	

During the year the Company limited its expansion and concentrated on improving its profitability by eliminating those units which operated at a loss. As a result only one A & W and one Fuller's Coffee Shop were opened in Edmonton.

To improve profitability the Company disposed of three Canadian drive-ins which operated under names other than A & W and two drive-ins in the United States. The Company also made the decision that the return on its Company-operated Chappy's fish and chips units was not sufficient to warrant opening additional units or to continue operating the present units.

In connection with the Company's decision to close Company-operated Chappy's units it is expected that future revenues from equipment sales and franchise fees will be reduced.

The sales of Burger Family, Inc. as shown above, were $1,950,000 in 1969 compared with $1,332,000 in 1970. The 1969 sales were converted to Canadian Dollars at a higher rate of exchange and include sales for 15 months of operations for the units in North and South Carolina due to a change in their fiscal year from September 30th to December 31.

EARNINGS

Income before income taxes and extraordinary items was $676,856 in 1970 compared with $602,640 in 1969. Included in income for 1970 are operating losses of approximately $166,000 resulting from units closed during the year.

Extraordinary items of expense were $1,108,707 in 1970 compared with no items of this nature in 1969. The major part of this expense resulted from the decision to write-down the assets connected with the Chappy's fish and chip program to an appraised value. Other items included in this figure are related to the closing of unprofitable units and the unpegging of the Canadian dollar.

Our income tax rate decreased from 48.8% in 1969 to 42.4% in 1970. This decrease resulted primarily from non-taxable gains included in income. The companies have unused tax losses aggregating $270,000 which are available for deduction from future taxable income.

Net income before extraordinary items for the year in 1970 was $389,856 or 15c per share, compared with $308,640 or 13c per share in 1969. The 1970 loss after the extraordinary items was $718,851 or 27c per share. Earnings per share in 1970 are based on 2,625,000 issued shares. 1969 earnings per share were based on the weighted average number of common shares outstanding during the year.

In addition to improving profitability by closing units which were operating at a loss the Company has also improved profitability and control by centralizing all of its Canadian accounting at its Vancouver head office.

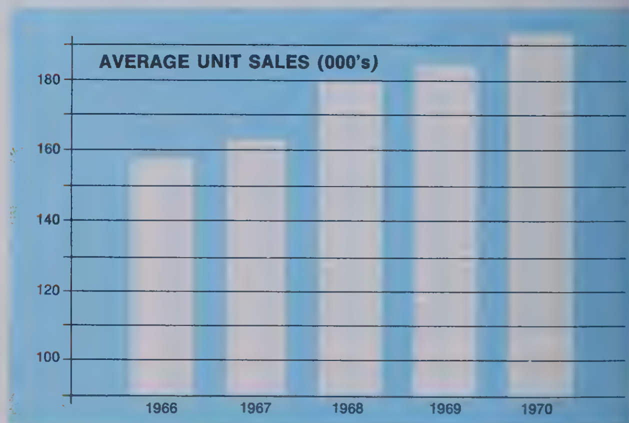
FINANCIAL POSITION

Shareholders' equity was $3,352,848 at the end of 1970 compared to $4,071,699 at the end of 1969. This decrease has resulted primarily from the write-down of assets connected with the Chappy's fish and chips program.

The Company has a working capital deficit of $823,525 at the end of 1970 compared to a deficit of $1,062,510 at the end of 1969; an improvement of $238,985. In addition to this improvement the Company was able to meet contractual commitments which existed at December 31st, 1969 amounting to approximately $500,000.

The Company expects to further improve its working capital by the sale of assets from discontinued or marginal operations.

CANADIAN DRIVE-IN DIVISION



1970 has seen a slight reduction in the number of units operating in this division. During the year, one new A & W unit was opened in Alberta and one unit in British Columbia was sold subsequent to year end. This maintained our number of A & W's at 49, which are operated in the provinces of British Columbia, Alberta, Ontario and Quebec.

Special emphasis was placed on "tidying up" the drive-in division and this subsequently lead to the closing of the two Robbie's and one McMurray's. The company owns a second McMurray's location in St. Catharines, Ontario and this land and business has been put up for sale. Once this sale has been completed the Company's drive-in division will consist only of A & W's.

It is the intention of the Company to continue expansion with additional A & W drive-ins as this division has always been a prime contributor to both sales and profits for your Company. Sales in this division were $10,116,000 in 1970 compared to $9,605,000 in 1969 or an increase of 5.3%. This sales increase is most gratifying during a year in which many competitors in our field encountered huge percentage losses. We have projected additional increases for 1971 and cannot see any conceivable reason why we will not reach this objective. A & W has always maintained a high level of customer satisfaction and there is nothing to indicate a change in this attitude. You can look forward to continued growth, sales, and profits from this division.

Chappy's
AUTHENTIC ENGLISH

As mentioned in the President's report and the financial review section the Company made a major decision to curtail its fish and chips program. The marketing of fish and chips proved to have a limited mass appeal and failed to meet the high expectations of management.

There were, however, some markets where franchisees were able to find sufficient acceptance and at present there are twelve of these franchisees in operation in the United States and Canada.

THE BURGER FAMILY®

Controlled Foods holds the trademarks in the United States for the names and symbols used in the Burger Family merchandising program, including Papa Burger, Mama Burger and Baby Burger. The trademarks are held by Burger Family, Inc., a wholly owned subsidiary of Controlled Foods, with offices in Minneapolis, Minnesota.

In the early part of 1971 the operating restaurants of Burger Family, Inc. in South Carolina were put on a management contract with a long time supervisory employee. Sales from these units contributed approximately $564,000 to the Company's 1970 sales. While this sales loss will be reflected in 1971 it is expected that net earnings from these units will be improved.

FULLER'S

The pilot operation of Fuller's, for what is intended to be an across-Canada chain of family restaurants, opened very successfully in December, 1970. Fuller's operation matches the uniqueness of its concept with many physical innovations as well. From the basic design of the unit on, there are a number of features appearing for the first time in the Canadian food service industry. One of the basic tenets of the restaurant philosophy is to have the total menu content available at any time during the day. Twenty-four hours a day, seven days a week, Fuller's meets the requirements of the dining-out public between two extremes—limited menu, fast service drive-in units on one hand and elegant high-priced restaurants on the other. Fuller's combines the best of both world's with reasonable fast service, although all menu items are cooked to order, yet at the same time offers comfortable high-styled surroundings at a price level within the reach of everyone.

The architecture has strong styling and is at once striking and yet casual in nature. The interior design of Fuller's also features many innovations. Food preparation areas are virtually open to the public view and are reduced to an efficient minimum in terms of space. Customers at Fuller's are able to watch Fuller's chefs in all

Fuller's ALWAYS OPEN

steps of food preparation using the latest equipment in the field.

All food preparation areas are of stainless steel and custom designed to the Fuller operation. Fabricated in Canada, for example, is a particularly large grill, comprising over 20 square feet in area. Most meat dishes however, particularly steaks and hamburgers, are prepared on a separate facility involving charcoal broiling.

The interior designers carried the spectacular colour scheming to all facets of the operation; colours that will become trademarks of Fuller's. In designing the interior, both counter and booth space is provided.

Management is aware that one of the most important approaches to a restaurant concept is service. The Fuller's Girl is the central marketing philosophy. From the first recruitment ad onward, Fuller's have set out to make a Fuller's Girl something special. The candidates participate in personality tests because it is a rare breed that day after day can maintain the warmth of personality needed to graciously serve the variety of customers.

Management is highly confident that this Division will be a significant contributor to Company profits in the future.

CONTROLLED FOODS INTERNATIONAL LTD. *(and its wholly-owned subsidiaries)*

CONSOLIDATED BALANCE SHEET *December 31, 1970*

(with comparative figures at December 31, 1969)

	1970	1969
CURRENT:		
Cash	$ 83,851	$ 49,085
Notes and accounts receivable (Note 2)	348,994	361,990
Inventory at the lower of cost and net realizable value	237,148	338,243
Prepaid expenses and deposits	39,895	135,392
Total current assets	709,888	884,710
LONG TERM NOTES AND RECEIVABLES	32,294	168,367
FIXED (Note 3):		
Buildings, equipment and leasehold improvements	4,089,449	4,703,578
Less accumulated depreciation and amortization	1,388,962	1,187,908
	2,700,487	3,515,670
Land	1,034,463	2,267,641
Properties and equipment held for resale	1,137,327	
	4,872,277	5,783,311
OTHER:		
Franchises and leases at cost less amortization (Note 4)	485,540	570,513
Development costs (Note 4)	32,705	69,838
Deferred charges	124,246	125,328
Deposits	24,931	24,931
	667,422	790,610
	$6,281,881	$7,626,998

See Accompanying Notes To The Financial Statements

LIABILITIES	1970	1969
CURRENT:		
Bank indebtedness	$ 62,179	$ 59,699
Accounts payable and accrued charges	880,982	1,290,619
Income and other taxes payable	205,632	220,941
Current portion of long term debt	384,620	375,961
Total current liabilities	1,533,413	1,947,220
DEFERRED FRANCHISE REVENUE		298,600
LONG TERM DEBT (Note 5)	1,780,240	1,685,440
Less current portion	384,620	375,961
	1,395,620	1,309,479
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)		
Authorized:		
4,000,000 shares without par value		
Issued:		
2,625,000 shares	3,311,509	3,311,509
Retained earnings	41,339	760,190
	3,352,848	4,071,699
	$6,281,881	$7,626,998

On behalf of the Board:

LeRoy E. Hull DIRECTOR

[illegible] DIRECTOR

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of Controlled Foods International Ltd. and all its subsidiary companies.

All U.S. balances have been translated at current rates. As a result of the unpegging of the Canadian dollar at May 31, 1970, the gain on U.S. dollar indebtedness included in the working capital of a Canadian company and the loss on translation of the company's equity in its U.S. subsidiaries are shown as extraordinary items in the statement of consolidated earnings.

During 1969 the company acquired various subsidiary companies by means of the issue of shares. The assets and liabilities of these companies have been combined in the accompanying balance sheet on a "pooling of interests" basis, the net assets being included at the values recorded in the accounts of these companies. In addition, the acquisition during 1969 of all the outstanding shares of a company operating in Southern Ontario and the cost of the assets and undertaking of three restaurants acquired, principally for cash, by a subsidiary company have been accounted for as "purchases."

Certain minor changes have been made in the 1969 comparative figures to conform with the classification followed in 1970.

2. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable comprise the following:

	1970	**1969**
Proceeds receivable from sale of property	$131,835	
Proceeds from mortgages	85,790	
Trade and other receivables	107,148	$123,164
Amounts due from shareholders	22,871	23,694
Franchise fees and equipment sales—current portion	1,350	215,132
	$348,994	$361,990

3. FIXED ASSETS

Fixed assets are valued at cost to the consolidated companies except for the assets of discontinued businesses which are valued at estimated market value. The major categories of assets are as follows:

	Cost	*Accumulated Depreciation and Amortization*	*Net Value*
Buildings	$1,571,718	$ 264,520	$1,307,198
Equipment, signs, automotive, fencing and paving	1,930,993	973,627	957,366
Leasehold improvements	586,738	150,815	435,923
	4,089,449	1,388,962	2,700,487
Land	1,034,463		1,034,463
	$5,123,912	$1,388,962	3,734,950
Property and equipment from discontinued businesses, held for resale—at estimated market value			1,137,327
			$4,872,277

The company records depreciation on its assets on a straight-line basis using rates designed to amortize the cost over the estimated useful life of the assets.

4. OTHER ASSETS

Franchise and lease costs are being amortized on a straight-line basis over the terms of the contractual agreements varying to a maximum of nineteen years.

Development costs are being amortized on a straight-line basis over three years from the commencement of the program. The unamortized development costs with respect to a discontinued business have been written off and included in extraordinary items (see note 8).

5. LONG-TERM DEBT

This consists of:	*Total debt*	*Portion due within one year*	*Long term portion*
Mortgages—with interest varying from 7% to 13% and maturing at various dates to August 1, 1986, secured by charges against land and buildings of various subsidiary and affiliated companies	$1,264,229	$217,571	$1,046,658

(continued)

Notes payable—with interest varying from 7% to 8½% and maturing at various dates to April 1, 1977. With the exception of one note in the amount of $93,750 which is secured by a first floating charge debenture on the assets of a subsidiary company, none of the notes is secured.	250,083	82,750	167,333
Lien notes payable—due at various dates to October, 1976, secured by charges against equipment of various subsidiary and affiliated companies.	176,601	49,088	127,513
Lease commitments capitalized—estimated net liability on property and equipment leases of discontinued businesses, which leases terminate at various dates to 1994.	89,327	35,211	54,116
	$1,780,240	$384,620	$1,395,620

The aggregate amount of principal repayable over the next five years is as follows: 1971—$384,620; 1972—$446,434; 1973—$136,798; 1974—$227,856; 1975—$381,207.

6. CAPITAL STOCK

During 1969 the company sold 285,000 shares for an aggregate consideration of $1,769,137 through an underwriter, who has an option to purchase a further 21,500 shares at $6.50 per share at any time to June 30, 1972.

During 1970 the company granted to a senior employee an option to purchase 25,000 shares at a price of $1.75 per share exercisable at various times to June 30, 1975 with respect to 20,000 shares and June 30, 1976 with respect to 5,000 shares.

There would be no dilutive effect on the earnings per share if these options were exercised.

7. LOSSES AVAILABLE FOR TAX PURPOSES

Certain subsidiaries have incurred losses in 1970 and prior years which are available for deduction from future taxable income in the respective companies, in the aggregate amount of $270,000, within the limitations prescribed by the Canadian and U.S. tax laws. No provision has been made for tax reductions in future years resulting from costs included in extraordinary items.

8. EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

Loss resulting from the unpegging of the Canadian dollar—net	$ 31,791
Settlement with former officer	58,144
Costs incurred or provided for with respect to business discontinuance—	
Chappy's program	943,965
Other	157,374
Reduction in income taxes of 1970 by application of certain of the above items	(82,567)
	$1,108,707

9. COMMITMENTS

Various subsidiary companies have leases of real property for varying terms up to a maximum of twenty-five years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years, excluding the lease commitments referred to in note 5, are as follows:

1971	—	$ 425,005
1972	—	423,091
1973	—	389,898
1974	—	379,782
1975	—	380,344
		$1,998,120

10. STATUTORY INFORMATION

The remuneration of directors and senior officers amounted to $154,467 (1969—$209,933).

CONTROLLED FOODS INTERNATIONAL LTD.

STATEMENT OF CONSOLIDATED EARNINGS *Year Ended December 31, 1970*
(with comparative figures for 1969)

	1970	1969
Revenues:		
Sales—		
Food and supplies	$13,013,147	$12,798,276
Equipment	167,824	146,504
Franchise fees	122,400	88,240
Licence fees and royalty income	40,121	44,610
Rental income	81,619	54,244
Other income—net	136,547	73,678
	13,561,658	13,205,552
Costs and expenses:		
Cost of sales—		
Food and supplies	4,822,725	4,872,550
Equipment	144,383	113,161
Depreciation and amortization of fixed assets	342,251	312,747
Selling, operating, general and administrative expenses	7,352,711	7,141,803
Interest—		
Long term debt	158,194	139,028
Other	64,538	23,623
	12,884,802	12,602,912
Income before income taxes	676,856	602,640
Income taxes	287,000	294,000
Income before extraordinary items	389,856	308,640
Extraordinary items (Note 8)	1,108,707	
Net income (loss) for the year	$ (718,851)	$ 308,640
Earnings per share (Note 6):		
Income before extraordinary items	$ .15	$ .13
Net income (loss) for the year	$ (.27)	$ .13

See Accompanying Notes To The Financial Statements

CONTROLLED FOODS INTERNATIONAL LTD.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended December 31, 1970 (with comparative figures for 1969)

	1970	1969
Balance, beginning of year	$760,190	$528,550
Net income (loss) for the year	(718,851)	308,640
	41,339	837,190
Reorganization, amalgamation and share issue expenses, less applicable income taxes of $83,000		77,000
Balance, end of year	$ 41,339	$760,190

See Accompanying Notes To The Financial Statements

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1970 (with comparative figures for 1969)

	1970	1969
Source of funds:		
Operations—		
Income before extraordinary items	$ 389,856	$ 308,640
Charges (credits) to income not resulting in an outlay (receipt) of funds:		
Depreciation and amortization of fixed assets	342,251	312,747
Amortization of franchises and lease costs	32,165	46,717
Franchise fee revenue	(122,400)	
Write off of long term receivables—net	9,150	
Total funds from operations	651,022	668,104
Issue of common shares		1,769,137
Additional long term debt financing	719,169	381,047
Decrease in long term receivables	10,560	
Decrease in other assets	17,142	
Disposal of fixed assets	793,207	
Increase in deferred franchise revenue		298,600
	2,191,100	3,116,888
Application of funds:		
Retirement of long term debt	687,144	379,532
Fixed assets acquired	935,891	3,343,093
Increase in long term receivables		168,367
Increase in other assets		278,802
Reorganization, amalgamation and share issue expenses, less applicable income taxes		77,000
Reduction in deferred franchise revenue	75,112	
Extraordinary items	253,968	
	1,952,115	4,246,794
Increase (decrease) in working capital during year	238,985	(1,129,906)
Working capital deficiency, beginning of year	(1,062,510)	67,396
Working capital deficiency, end of year	$ (823,525)	$(1,062,510)

See Accompanying Notes To The Financial Statements

AUDITORS' REPORT

To the Shareholders of
Controlled Foods International Ltd.:

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its wholly-owned subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
May 11, 1971.

Clarkson, Gordon & Co.
Chartered Accountants.

DIRECTORS

Richard Frederick Bolte
John Thomas Burnett
James Alfred Cox
Kenneth Alfred Fowler
LeRoy Earl Fuller
Jerroll Russell Johnston
Joseph Clement Murphy
Robert Richard Roe
Ross James Turner

OFFICERS

LeRoy Earl Fuller
Robert Richard Roe

HEAD OFFICE:
Vancouver, Canada

AUDITORS:
Clarkson, Gordon & Co.

SOLICITORS:
Davis & Company

BANKERS:
The Toronto-Dominion Bank

TRANSFER AGENT:
Canada Permanent Trust Company

STOCK LISTING:
Toronto Stock Exchange

FIVE YEAR STATISTICAL REVIEW

(000's eliminated)

	1970	1969	1968	1967	1966
Sales	$13,181	$12,945	$11,412	$10,296	$ 8,479
Franchise fees	123	88			
Other income	258	173	52	63	62
	13,562	13,206	11,464	10,359	8,541
Cost of sales	4,967	4,986	4,473	4,139	3,480
Operating expenses	7,353	7,142	5,598	5,372	4,257
	12,320	12,128	10,071	9,511	7,737
Operating profit	1,242	1,078	1,393	848	804
Depreciation & amortization	342	313	271	215	188
Interest	223	162	119	90	68
	565	475	390	305	256
Income before taxes	677	603	1,003	543	548
Income taxes	287	294	383	176	198
Net income for year before extraordinary items	390	309	620	367	350
Extraordinary items	1,109				
Net income (loss) for year	(719)	309	620	367	350
Average number of shares outstanding (Note)	2,625	2,451	2,340	2,340	2,340
Earnings per share before extraordinary items	$ .15	.13	.26	.16	.15
Earnings (loss) per share	$ (.27)	.13	.26	.16	.15

Note: For purposes of comparison the 1965 to 1968 earnings per share are computed using the number of shares outstanding immediately prior to the public offering.

A & W DRIVE-INS:

ONTARIO:

Belleville	1
Brockville	1
Cornwall	2
Kingston	1
London	4
Mississauga	1
Niagara Falls	2
Oakville	1
Port Colborne	1
Port Credit	1
Richmond Hill	1
St. Catharines	2
Stratford	1
Trenton	1
Welland	2
Woodstock	1

BRITISH COLUMBIA:

Victoria	4
Campbell River	1
Nanaimo	1
Courtenay	1
Duncan	1
Abbotsford	1
Haney	1
White Rock	1
Port Coquitlam	1
Chilliwack	1
Langley	1

ALBERTA:

Edmonton	10

QUEBEC:

Granby	1
Sherbrooke	1

OTHER DRIVE-INS:

ONTARIO:

St. Catharines	1

FULLER'S COFFEE SHOPS:

ALBERTA:

Edmonton	1

OTHER COFFEE SHOPS:

ONTARIO:

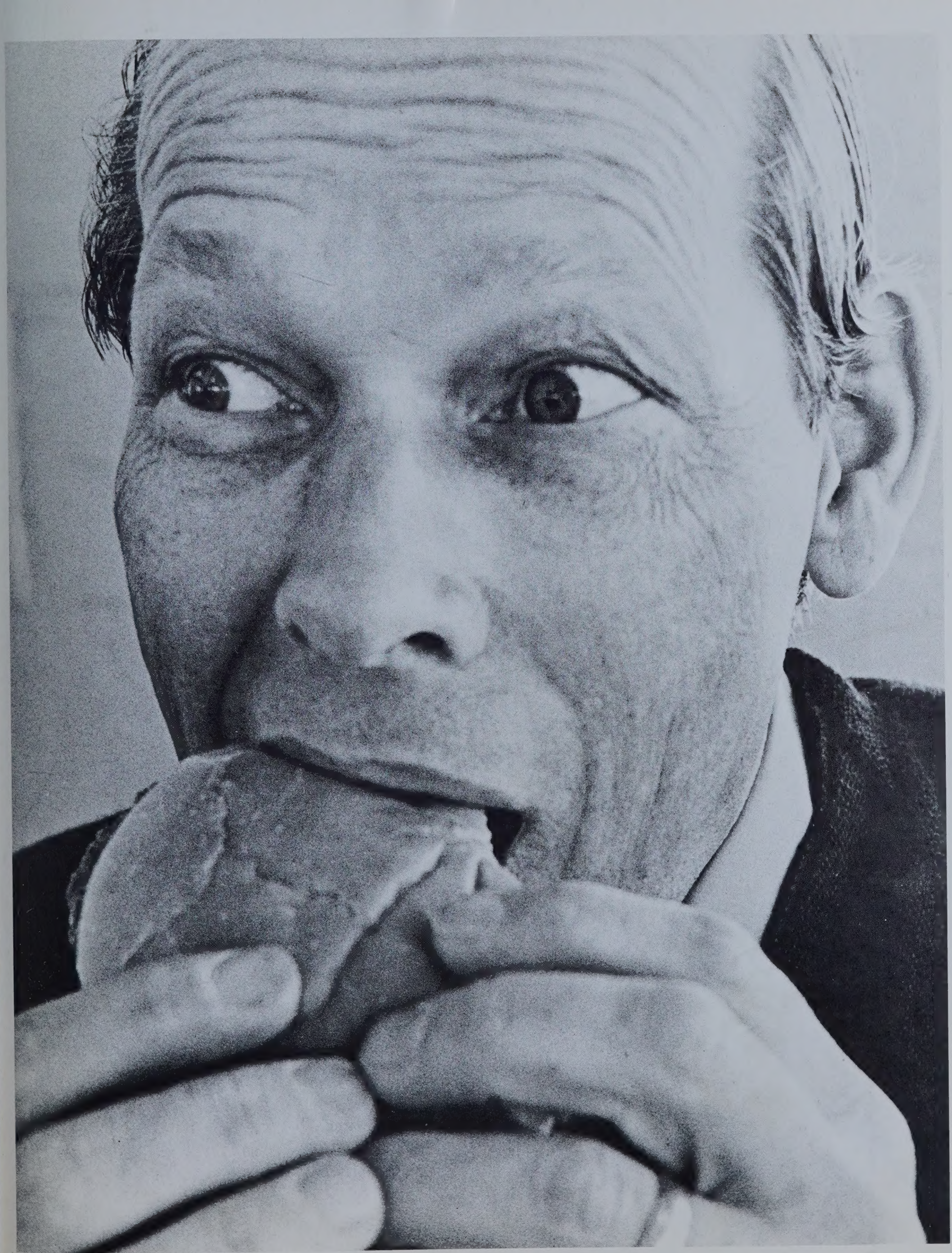
London	1

MANITOBA:

Winnipeg	1

ALBERTA:

Edmonton	1



CONTROLLED FOODS INTERNATIONAL LTD., 3155 UNDERHILL, BURNABY, B.C.

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